

Message Text

CONFIDENTIAL

PAGE 01 LONDON 11156 301915Z

61

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 DODE-00 PA-04 USIA-15 PRS-01 FEA-02

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INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BELGRADE

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

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CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11156 301915Z

C O N F I D E N T I A L L O N D O N 11156

E.O. 11652: GDS

TAGS: EINV, ENRG, OECD, UK

SUBJECT: BRITISH POLICY ON FOREIGN INVESTMENT

REF: (A) STATE 178864; (B) LONDON 10678

BEGIN SUMMARY: FOLLOWING OUR DISCUSSIONS WITH HM TREASURY AND THE FCO REPORTED REFTEL, WE DISCUSSED BRITISH POLICY ON FOREIGN INVESTMENT WITH OFFICIALS AT THE DEPARTMENT OF INDUSTRY AND THE DEPARTMENT OF TRADE. THESE OFFICIALS GAVE US A DIFFERENT SLANT, SAYING THAT THE LABOUR GOVERNMENT IS, ON BALANCE, MARKEDLY LESS ENTHUSIASTIC ABOUT FOREIGN INVESTMENT THAN ITS PREDECESSOR. THE GOVERNMENT'S RESERVATIONS APPLY TO BOTH INWARD AND OUTWARD INVESTMENT, DIRECT AND PORTFOLIO, REGARDLESS OF SOURCES OR DESTINATION. THEY ARISE-- ACCORDING TO OUR SOURCES-- FROM "DOCTRINAIRE NATIONALISM," NOT ECONOMICS, AND ARE MANIFESTED IN THE BELIEF THAT FOREIGN FIRMS ARE LESS EASY TO CONTROL THAN DOMESTIC ONES, AND THAT CAPITAL EXPORTS MEAN A LOSS OF JOBS. THIS ANTIPATHY TO FOREIGN INVESTMENT APPEARS TO BE STRONGER IN SOME MINISTERS (WEDGWOOD BENN AND PETER SHORE, FOR EXAMPLE) THAN IN OTHERS. THE VIEWS OF THE CHANCELLOR OF THE EXCHEQUER AND THE FOREIGN SECRETARY ARE NO DOUBT CLOSER TO THE TRADITIONAL BRITISH INTEREST IN FOSTERING THE FREE MOVEMENT OF CAPITAL. THE POLICY OF THE GOVERNMENT AS A WHOLE IS STILL FLUID. IF LABOUR IS RETURNED TO POWER IN A FALL ELECTION, IT COULD-- IF BENN AND SHORE HAD THEIR WAY--INTRODUCE CONTROLS ON FOREIGN INVESTMENT BASED ON INDUSTRIAL POLICY CRITERIA, SUPPLEMENTING THOSE WHICH NOW EXIST FOR EXCHANGE CONTROL AND BALANCE OF PAYMENTS REASONS. THE CONCERN OVER FOREIGN INVESTMENT APPLIES AT LEAST AS MUCH, IF NOT MORE, TO INVESTMENT FROM MORE DEVELOPED AREAS. END SUMMARY.

1. WE HAVE DISCUSSED BRITAIN'S GENERAL POLICY TOWARD FOREIGN INVESTMENT WITH OFFICIALS FROM THE DEPARTMENTS OF INDUSTRY AND TRADE. WE ALSO TOUCHED ON THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 11156 301915Z

QUESTION OF FOREIGN DIRECT INVESTMENT BY OIL-PRODUCING NATIONS. WE OBTAINED SOME INSIGHTS THAT SUPPLEMENT THE REPORT IN THE REFTEL, WHICH WAS BASED MAINLY ON CONVERSATIONS AT HM TREASURY AND THE FCO.

2. BEFORE THE PRESENT LABOUR GOVERNMENT CAME TO POWER, THE OFFICIALS SAID, BRITISH POLICY TOWARD FOREIGN INVESTMENT WAS BASED ALMOST ENTIRELY ON EXCHANGE CONTROL AND

BALANCE OF PAYMENTS CONSIDERATIONS. AS LONG AS THESE CONSIDERATIONS WERE MET, THE GOVERNMENT KEPT "A LIGHT REIN" ON FLOWS OF INWARD AND OUTWARD INVESTMENT. THE LAST GOVERNMENT EVEN MADE SOME ATTEMPTS TO ENCOURAGE INVESTMENT. A SCHEME FOR INSURING CERTAIN KINDS OF OUTWARD INVESTMENT WAS INTRODUCED, FOR EXAMPLE, AND THE GOVERNMENT SPONSORED PRE-INVESTMENT SURVEYS IN LDCS. BRITISH TEAMS WERE SENT ABROAD TO LOOK FOR POTENTIAL INWARD DIRECT INVESTMENT TO SUPPLEMENT BRITAIN'S REGIONAL POLICY.

3. THE LABOUR GOVERNMENT, ACCORDING TO OUR SOURCES, IS LESS INTERESTED IN ENCOURAGING FOREIGN INVESTMENT. IT HAS NOT INTRODUCED NEW RESTRICTIVE RULES, AND IT IS NOT ACTIVELY DISCOURAGING INVESTMENT, BUT IT IS NOT ENCOURAGING IT EITHER. THE SCHEME FOR PRE-INVESTMENT SURVEYS IN DEVELOPING COUNTRIES HAS BEEN SHELVED. OUR SOURCES SAID THAT THE GOVERNMENT'S POLICY ON FOREIGN INVESTMENT IS STILL FLUID. THEY INDICATED THAT THEIR OWN MINISTERS--WEDGWOOD BENN AND PETER SHORE--ARE AMONG THE MORE UNENTHUSIASTIC. THEIR RESERVATIONS, THEY SAID, REFLECT A "DOCTRINAIRE NATIONALISM" THAT IS DEEPLY ROOTED IN THE LABOUR PARTY AND THE TRADE UNIONS. TYPICAL MANIFESTATIONS ARE THE BELIEFS THAT FOREIGNERS SHOULD NOT BE ALLOWED TO BUY UP BRITAIN'S "INDUSTRIAL BIRTHRIGHT," THAT FOREIGN FIRMS ARE LESS SUBJECT TO GOVERNMENT CONTROL THAN BRITISH ONES, AND THAT CAPITAL EXPORTS MEAN A LOSS OF JOBS.

4. OUR SOURCES SAID THAT IF LABOUR IS RETURNED TO POWER IN THE ELECTION EXPECTED THIS FALL, IT COULD INTRODUCE NEW CONTROLS ON INWARD AND OUTWARD INVESTMENT. THESE WOULD BE BASED ON INDUSTRIAL POLICY
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LONDON 11156 301915Z

CRITERIA, SUPPLEMENTING THOSE WHICH ALREADY EXIST FOR EXCHANGE CONTROL AND BALANCE OF PAYMENTS REASONS.

5. AS AN EXAMPLE OF THIS NEW LACK OF ENTHUSIASM OVER FOREIGN INVESTMENT, OUR SOURCES QUOTED COMMENTS THAT WEDGWOOD BENN MADE ON THE POSSIBILITY THAT AN OIL-PRODUCING COUNTRY (EVIDENTLY IRAN) WOULD PURCHASE EQUITY IN BRITISH COMPANIES. BENN EXPRESSED CONCERN OVER THE PROSPECT OF "OWNERSHIP OR CONTROL OF SUBSTANTIAL ELEMENTS OF BRITISH INDUSTRY" BY FOREIGNERS. FOREIGN PARTICIPATION IN EXISTING EQUITY, HE SAID, WOULD NOT NORMALLY EXCEED TEN PER CENT. ANY PROPOSAL TO GO BEYOND THIS SHOULD BE CONSIDERED BY MINISTERS AND DECIDED ON ITS MERITS. FOREIGN PARTICIPATION IN NEW VENTURES SHOULD NORMALLY BE LIMITED TO 49 PER CENT.

6. OUR SOURCES SAID THAT THE PREVIOUS CONSERVATIVE GOVERNMENT WOULD HAVE BEEN PREPARED (WITH DUE REGARD FOR SUCH CONSIDERATIONS AS NATIONAL SECURITY) TO HAVE FOREIGNERS BUY ENTIRE COMPANIES. THIS GOVERNMENT WILL LOOK AT EACH CASE MUCH MORE CAREFULLY. PROPERTY COMPANIES HAVE BEEN THE ONLY ONES, SO FAR, IN WHICH OIL-PRODUCING COUNTRIES HAVE BEEN INVESTING. THE GOVERNMENT HAS BEEN CONCERNED ABOUT THIS DEVELOPMENT, BUT HAS NOT MOVED TO CURTAIL IT. OUR SOURCES INDICATED THAT HMG WOULD BE SOMEWHAT MORE CONCERNED OVER LARGE INVESTMENTS FROM OIL PRODUCERS THAN IT WOULD BE OVER INVESTMENTS FROM MORE DEVELOPED AREAS THAT COULD BRING TECHNICAL EXPERTISE AND MANAGEMENT KNOWHOW ALONG WITH THEIR CAPITAL.

7. COMMENT: ATTITUDES OBVIOUSLY VARY WITHIN THE LABOUR GOVERNMENT ON THE GENERAL SUBJECT OF FOREIGN INVESTMENT. THE "NATIONALIST" APPROACH OF MINISTERS LIKE SHORE AND BENN IS NOT SHARED BY OTHER KEY MINISTERS, OR BY THE CIVIL SERVICE. SHORE AND BENN WOULD ENCOUNTER RESISTANCE FROM WITHIN THEIR OWN GOVERNMENT IF THEY TRIED TO IMPOSE NEW RESTRICTIONS. IN ANY EVENT, NO NEW RULES ON INVESTMENT ARE LIKELY TO BE INTRODUCED IN THE IMMEDIATE FUTURE. THE GOVERNMENT WILL CONTINUE TO APPLY EXISTING EXCHANGE CONTROL

CONFIDENTIAL

CONFIDENTIAL

PAGE 05 LONDON 11156 301915Z

REGULATIONS. (SEE OUR A-981 OF JULY 27, 1973 FOR A SUMMARY OF THE EXCHANGE CONTROL REGULATIONS AS OF THAT DATE.) IT WILL, HOWEVER, EXAMINE MAJOR INVESTMENT INFLOWS OR OUTFLOWS CAREFULLY, ON A CASE BY CASE BASIS, AND WHILE THE POSSIBILITY OF NEW RESTRICTIONS SEEMS REMOTE AT THIS TIME, THEY WOULD BE MORE LIKELY IF LABOUR WINS THE NEXT ELECTION THAN THEY WOULD UNDER THE CONSERVATIVES. SOHM

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